

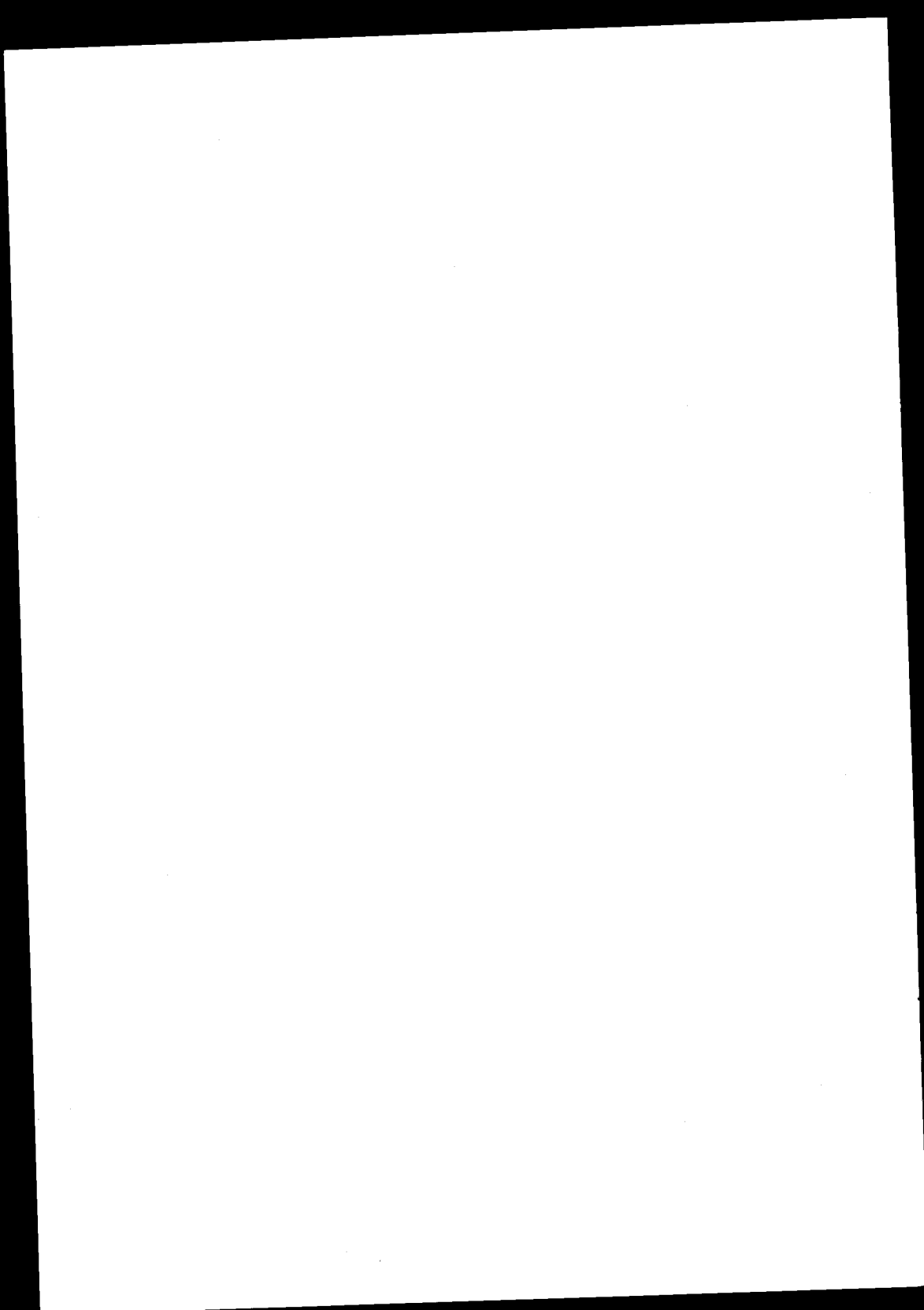
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CONTENTS

SECURITY AND DEFENCE POLICY

Introduction by Kai-Uwe von Hassel	4
Resolution	9

EUROPEAN MONETARY UNIFICATION

Resolution	14
Explanatory Statement by John Poullet	17

EUROPEAN REGIONAL POLICY

Statement on a Mediterranean Plan for the European Community	32
Member parties and associations of the EPP and the ECDU	36
Usefull addresses	39

JUNE 1981

SECURITY AND DEFENCE POLICY

Meeting of the Political Bureaux of the European Christian Democratic Union (ECDU) and the European People's Party (EPP), held on 3 rd March 1981 in Brussels.

Introduction :

Kai-Uwe von Hassel

FOREWORD

In Autumn 1979 the question of future security was discussed with growing intensity in the countries of the free world. The reason was the warning issued by the leaders of the North Atlantic defence pact that, in the decade of detente, the Soviet Union had increased its arms potential to such an extent that the military balance between East and West had been lost, to the detriment of the West.

The NATO leaders persisted in pointing out this situation and calling on the States of the North Atlantic defence pact to increase their efforts to maintain this balance. In this connection the United States, as the leading power in the western world, urged that the nuclear arsenal should also be brought up to the level of that of the Soviet Union.

The discussions in the western world did not follow these demands and sometimes produced notable divergencies. Left-wing socialists severely criticized these ideas. They were in some cases strongly supported by the media. The socialists and their supporters in the media emphasized, rather one-sidedly, the priority of detente. They continually claimed that there was no alternative. The socialists did not, however, realize that by continually harping on the lack of alternatives they were convincing the opponents of the free world that the socialists in that free world were prepared to pay practically any price for detente.

But doubts about the overall doctrine of the defence of the free world were also heard in the ranks of the non-socialists. Liberals of differing political weight took up the political ideas of the left-wing socialists. Even among Christian Democrats serious discussions were held, for the first time since the founding of NATO, on the possible revision of defence policy.

Against this background the leadership of the ECDU and the EPP decided to take up the theme of „Defence and Security Policy“, and designated a defence committee from the two bodies to prepare a policy debate.

From Autumn 1979 until now, i.e., in just 1½ years, this committee has met seven times. It had undertaken a comprehensive analysis of the world situation and consequently drawn up a paper which forms the basis of today's discussion.

In the light of developments since Autumn 1979, i.e., since the invasion of Afghanistan, the taking of the hostages in Teheran, the military conflict in the Middle East between Iran and Iraq, the developments in various African countries, the second oil crisis and the threat to oil and raw material supply routes to the western world, this paper has been frequently redrafted and new material added.

At the meetings the defence committee had before it a number of papers from our Dutch, Belgian and French colleagues. Also included in the deliberations were the papers prepared by the Western European Union — the parliamentary assembly of the Brussels pact responsible for questions of security and defence, whose report on the issue of the „Future of European Security“ was adopted on 2 December 1980.

An initial discussion had also been taking place during this same period in the European Parliament. The EPP Group believes that these questions must also be given serious consideration in the directly-elected European Parliament. This Parliament must extend its responsibility to cover questions of security policy and armaments. The defence

working party of the Group has drawn up a number of working papers which are being discussed there at the moment and which have also been drawn on for our discussions.

All these papers have thus been taken as the basis for the deliberations on our proposal. It hardly needs to be said that there can never have been a paper which succeeded in including all the views of all the partners.

The paper before us is therefore a compromise, although no party has had to make major concessions on any point. All the members of the committee accepted the draft without reservation. However, I assume that various provisions will have to be discussed today. I would also point out that the chairman of our Irish member party indicated at an early stage that this party could not take part in this debate because of his country's special role, and that it would be abstaining in the voting on the resolution. Everyone in our gathering will respect this special role.

- I. Our work has made it clear enough that the situation is grim and that the world is overshadowed by the threatening destruction of freedom. The forces which could and should be working against this trend are lost in clouds and fancies, and are unable or unwilling to study the real facts if they do not fit in with their picture of the world. Some of them are not even willing to employ adequate means for the situation.

But there is not a single analysis drawn up by the scientific and military staffs of the free world which does not give dramatic and depressing figures for the military strength of the Soviet Union. They specify that the Soviet forces are not only the most numerous, they are also the most modern, at full war strength, mobile and extremely efficient. They are fully standardised : a division of the so-called People's Army of the GDR can draw spare parts from any Polish, Czech or Russian stores : they have standardised weapons, vehicles, equipment, ammunition and fuels.

On the demarcation line between free and unfree Europe the Soviet armies are lined up en masse and armed ready to attack. Together with them are the units of the states of the Warsaw pact. Vis-à-vis the Federal Republic of Germany they have increased their land forces by a million men, their tank strength by 40% and their artillery by as much as 100%. The operational bases of the eastern bloc air forces already have their third generation of post-war aircraft ; in the west we still rely on the second generation.

The Soviet armies are **offensive armies** : they would only need a fraction of their forces for **defence**. And against whom would the Soviet Union have to defend itself in the west ? Against the possibility of attack from NATO ?

NATO is a defence alliance and everyone in the know — and I assume that Russian generals and politicians are in the know — realizes that NATO is totally unsuitable for carrying out attacks. But there are still people in the west who believe Soviet propaganda and even spread the idea that the Soviet Union must feel itself under military threat from the west.

In the last 24 months I have had occasion enough to make it clear that the Soviet Union is today in a position to achieve any military objective which it wishes to set itself :

- it can cross any border ;
- it can reach to any part of the world and sail undisturbed on the seven seas ;
- it can locate its intercontinental weapons anywhere in the universe.

No-one is maintaining that the Soviets want a war **today**. They would have the **capability** many times over.

Now their **intentions** are certainly directed towards peace. However, we should base **our** measures not on the **intentions of the moment** but only on the **capabilities** of the other side : intentions can change overnight — if, for instance, there is a change in the Kremlin leadership.

It is a tragic thing for the western world that very few politicians grasp these key facts and base their policies on them. There are dreams of peaceful intentions, of Willy Brandt's claim that peace has become more certain. Nothing is more absurd, but no catchphrase is unfortunately so effective and popular as this claim that peace has become more certain.

The great Christian Democrats of the post-war period have always given prominence to the questions of threat and security, the need for defence and the need to form broad alliances in their speeches and political actions. We have often had too much of it — it would be wrong to deny the fact — but how right they were : only under the shield of security can internal policy — social order, the family, the economy and cultural and intellectual life — thrive.

There were times in the sixties and seventies when it was thought that greater attention should be given to internal policy. Indeed internal policy is very important, but given world developments we must admit that even we Christian Democrats have not given enough thought to the world and its threats and the need to protect freedom. In the grass roots of our party people believed that „those at the top" would take care of things, as they had made a brilliant success of things before and that is was enough to tell them to do what was necessary. Even our parties have in some cases dangerously neglected foreign policy and have become too provincialist.

I told you that against this background the ECDU and EPP have decided to reexamine the question of security and defence policy anew. The word „anew" is not quite correct. In the four years of its existence the EPP has not yet looked at this component of our policy — except for general remarks : the ECDU has not discussed this subject for more than ten years. So this debate today is the first major fundamental debate on the subject.

In its discussion the committee feels that it must make the party and its supporters aware of what is at stake. It is my view that not enough emphasis can be given to the dangers imminent in the world today.

It was emphasized in the discussions that detente is something we actively desire. In the same breath, however, it is stated that detente must not be at the cost of our freedom. We believe that dreams and fancies will not make the world more secure. We have made it clear that we do not want war and those that maintain we do are abetting aggressive world communism.

We have summed up our aims as follows :

- clarity in our objectives — namely maintaining peace ;
- firmness in our policy to this end ;
- unanimity in our alliance ;
- solidarity of the free peoples of the worle.

I said earlier that Christian Democrats support the policy of detente in their programme and have always warned against false hopes in the past. The Soviet invasion of Afghanistan, against which we protested energetically, demonstrates that the forces of the Soviet Union are in no way defensive but are employed world wide in the service of Kremlin policy. This act of aggression beyond the borders of previous Communist influence has gone beyond the limits of the Warsaw Pact. In our view this influence has spread to a horrific extent. The dangers it brings are ever-increasing. This also affects the countries of the Third World to the same extent. A quick look at the map of Africa, for instance, should demonstrate to anybody what is happening and what dangerous developments are taking place for Europe : Ethiopia, Mozambique, Angola, Dahomey and Guinea-Bissau. And in the last few months Libya, a close ally of the Soviet Union, has practically absorbed Chad. And this country is next to Niger, one of the major sources of uranium.

Europe is confronted with the task of making the countries of the Third World aware of this new world-wide challenge from the Soviet Union. The Third World is also crucially dependent on world-wide guaranteed security and freedom ; it also depends on guaranteed sea communications for oil and raw materials.

A constantly recurring note in our discussions has been the fact that we face difficult decisions. There must be no division of labour in which the United States takes on the burden of providing security while the Europeans adopt priority for the policy of detente. This would be a grave danger for the Atlantic Alliance.

We uphold the need for disarmament negotiations with the east, designed to provide practical solutions rather than just gaining time. We are not responsible for the delays. For us it is essential to cooperate in the CSCE follow-up conference in Madrid and to ensure the continuation of the arms control negotiations.

Allow me to conclude with four further observations.

FIRSTLY

Some of our partners here are unable to express their views on the Alliance for understandable reasons : I mentioned our Irish friends. The freedom of these partners is however closely bound up with our own freedom. Their freedom will also come to nought if we cannot maintain ours.

SECONDLY

We should all remember the lessons of the Second World War and the consequent commitments we made to preserve security in freedom. This task has always been to the fore in our policies : we have had to demand many unpopular measures in order to preserve this freedom.

You will agree with me that there is no other European grouping which has so unequivocally supported the cause of the preservation of freedom during the last thirty years as the Christian Democrats. They have, essentially, been the ones to foster the idea of the defence of freedom, as they still are today. Without our firm attitude the Alliance would no longer exist today.

THIRDLY

Everything indicates that the up-and-coming generation of socialists of all kinds is well on the way to eradicating the readiness and will for defence. The latest events in connection with the consideration of the 1981 budget in the German Bundestag offer enough proof of this. If these young left-wingers are allowed to do as they wish they will one day destroy all our efforts in the Alliance in order to attain their ultimate dream of the unification of the working class in accordance with their motto „Workers of the world, unite“. And I do not need to say who will then give the lead. The young socialist generation of today will break the Alliance tomorrow. I exhort you to take this warning seriously. If we fail to understand this we shall be guilty of neglecting a crucial sector of our policy.

FOURTHLY

Careful observers of the situation in our countries realise that the danger lies not only in developments in the socialist camp but also far beyond that. The younger generation is very susceptible to pacifist tones ; in my own evangelical church we have pacifist theologians who agitate against the will for self-defence in fine-sounding phrases but without any knowledge of the facts.

Anyone who cares to dig deeper will discover a grand Soviet strategy to undermine the will to defend of the west in many ways, with many variations, persons and organisations.

The terrible danger must be understood by everyone. We in the west are faced with the question of whether we can make our people understand what is at stake. It is widely thought that the danger can be kept at bay by concessions in the hope that the other side will see reason and make a similar contribution. Those who support these ideas are unfortunately ignorant of the historical development of world communism.

If you have studied the draft decision which was forwarded to you in good time you will know that our objective runs through our paper like a leitmotif : we also want detente and disarmament, confrontation is not our objective. But the paper also tries to counter the illusions which so many people have espoused in recent years. The committee feels an obligation to point out in no uncertain terms what we have to do.

The Political Bureaux of the European Christian Democratic Union (ECDU) and the European People's Party (EPP), at their joint meeting held on 3 March 1981 in Brussels under the chairmanship of Kai-Uwe von Hassel and Leo Tindemans unanimously adopted the following resolution. In view of Ireland's special status, the Irish delegation abstained.

Resolution on security and defence policy

1. The political parties forming the EPP and the ECDU are conscious that they must make a real contribution to world peace in freedom. They note with satisfaction that the Atlantic Alliance and the establishment of the European Community have ensured thirty years of peace in freedom and fruitful cooperation between nations that were formerly rivals.

Given that peace and liberty are inseparable, one of their main aims is to safeguard and further the cause of peace. This involves more than the prevention of war or armed conflict. It requires just as well initiatives to lessen existing tensions and, wherever possible, to achieve peaceful solutions. The principal aim is therefore general, progressive and controlled disarmament. This also means active promotion of just world relations. In terms of European development the latter means :

- striving towards a society where everyone can lead a meaningful existence and is offered an equal chance to develop his potential ; where young people see prospects for the future and minorities are treated with respect ;
- the establishment of an international legal order characterized by just international relations, inter alia at social and economic level, and where human rights are important.

The best guarantee of this is a democratic pluralist system :

- the pursuit, as equals, of a policy of development cooperation with the Third World in which fundamental social rights and solidarity are given a global perspective.

2. Confident in the future of the peaceful relations, which assure the safety of the European peoples within the European Community, confident in the friendship linking them with the United States and Canadian peoples, the christian democratic parties express their concern at the constant advance of Soviet expansionism throughout the world, of which the invasion of Afghanistan in December 1979 and the brutal occupation of that country by Soviet troops for over a year now, in the face of the united resistance of the Afghan people, has been a recent example.

The increasing nuclear and conventional strength of the Soviet armed forces, their increasing presence throughout the oceans of the world, which is a direct threat to European supplies, their direct or indirect intervention in Central Asia, Africa, the Middle East, Southern Asia and the Caribbean cannot be justified as legitimate concern for security.

These are the manifestations of an offensive world strategy calculated to rollback the positions of the West and undermine the independence of Third World countries whenever the USSR thinks vulnerable, with a view to the final victory of a political and economic system based on totalitarianism and alleged communist supremacy.

The obvious imbalance of power in Europe which is now developing is a major threat to that continent, since the Soviet Union has achieved strategic nuclear parity with the USA, and is now threatening the very heart of that country. It is also building up nuclear superiority in the European theatre. Its MIRVed, mobile, and highly accurate SS 20s and its Backfire bomber will soon enable the USSR to pose a first-strike threat to all military targets in Western Europe.

The Warsaw Pact has a clear superiority over the Atlantic Alliance in Europe in conventional weapons, which in some areas is higher than 2:1, even though this is partially offset by a Western superiority in tactical nuclear weapons.

3. Western Europe remains the permanent target for Soviet expansion which aims at exercising control over a group of countries grouping together substantial technological, industrial and agricultural resources. To this end, the Soviet Union will work to enfeeble the links between the European countries within the European Community, and between the latter and the United States. The EPP and ECDU wish to make it known that all attempts to weaken western solidarity as enshrined in the Atlantic Alliance will be denounced and resisted with vigour. European security requires that the Alliance uniting the free people of Europe and North America be maintained and strengthened. There will be more likelihood of the American commitment to the security being continued in the long-term if the Europeans themselves demonstrate their determination to take sufficiently large a part in their own defence.

The EPP and ECDU are aware of the subversive and ideological aspects of the threat. The Soviet Union, interpreting détente to its own advantage, is conducting a part overt, part undercover, political campaign to weaken, divide and demoralise the potential adversary.

Détente is no substitute for defence. It can supplement it where it does not upset the vital balance of power. Détente is beneficial if it represents a joint effort to reduce tension, defuse crises, and give form to coexistence and cooperation. It must not be used by the communist camp as a smoke screen behind which huge stocks of arms are built up. Neutrality in the West will not serve genuine détente.

4. As the world's most important trading unit, composed of countries which, in spite of the international economic recession, offer their citizens the highest standard of living, the European Community makes an important contribution to Western security. The yearly increase in defence budgets, the recent decision to modernize and strengthen the British and French nuclear deterrents, the modernization and deployment of nuclear medium-range arms — Pershing II missiles and Cruise missiles — decided by the Alliance and accompanied by an offer of negotiations to end the arms race, all demonstrate Europe's desire to play an active role in its defence.

Deterrence requires a scale of reactions to all forms and levels of aggression, before extreme measures are resorted to. Flexible response appears to be the most reasonable solution.

But European security cannot be maintained simply by strengthening her defence capability. To win the peace, we must stamp out the seeds of war.

Being convinced that world peace is inseparable from international justice, respect for human rights and the fair distribution of wealth, the EPP and ECDU believe that Europe must pursue a bold policy of cooperation with the Third World, with the aim of making the most effective contribution to the development of the poorest regions of the world, and protecting them from the destabilization campaigns mounted by the USSR and its allies.

5. The EPP and ECDU regard the accession of Greece and soon of Spain and Portugal to the Community as likely to strengthen pluralist democracy and increase stability in regions of major strategic value to the defence of Europe. If Spain declares itself in favour of accession to the Atlantic Alliance, the EPP and ECDU will support this move. The EPP and ECDU underline the importance of political initiatives, such as the Euro/Arab Dialogue and the North/South Dialogue which can introduce more stability to the Mediterranean. It recalls that a sufficient naval presence from the United States and European countries to protect the vital lines of communication between the Middle East and Europe is an important element in the maintenance of our security.

6. The EPP and ECDU feel that the time has come for an entire reappraisal of the concept and the structure of the Atlantic Alliance with a view to adapting and strengthening it.

The aim is to consolidate the „European pillar“ of the Atlantic Alliance which would, far from dividing it, increase the cohesion of the West by putting relations between the United States and a Europe in the course of unification on a footing of equal partnership.

Europe must assume its rightful role of responsibility within the field of international politics. It will command more attention once it establishes a sense of cohesion and speaks with a single voice. Solidarity does not mean playing follow my leader but consultation and coordination between free partners. Now that America has reinforced its world strategy, Europe, for its part, must assert its identity and interests in formulating a joint strategy. The time has come for European concertation within the Atlantic Alliance. Better European concertation is impossible without progress towards European political unification.

7. The EPP and ECDU feel that fresh impetus is desirable for the negotiations on arms control and disarmament, and on monitoring of armaments. They regard it as particularly desirable that the MBFR negotiations should show results.

They support the proposal for a conference on disarmament in Europe to cover, in an initial stage, the extension and strengthening of measures designed to build up confidence. Their aim is to achieve and be able to verify a balanced, definite and binding reduction of conventional armed forces throughout Europe and as far as the Urals.

They hope that the negotiations proposed by NATO on the limitation of nuclear medium-range arms will be set in motion so that a balance in this field can be restored in Europe at as low a level as possible.

They believe that the SALT negotiations on the limitation of strategic arms should be resumed.

They are deeply concerned at the spread of the arms trade and the dangers of increased quantities of nuclear arms in the world. They support the Danish initiative to examine within the UNO the problems of the arms trade.

8. In the spirit of the report by Mr Kai-Uwe von Hassel on behalf of the Political Committee of the Western European Union, the EPP and ECDU consider that the European Parliament, the only European assembly with the cachet of election by direct universal suffrage, would be shirking its responsibility for expressing the concern of its electors if it did not discuss matters relating to European security. Therefore they support the proposals to send Members of the European Parliament to take part as observers in the work of the WEU Assembly.

They consider that the European members of the Alliance must strengthen their defence coordination so that Europe makes the most suitable contribution to the alliance and a better balanced one in relation to the United States. Increased standardization and inter-operability between the various national forces is very important.

They also believe that genuine European cooperation should be achieved on armaments. They are convinced that such developments would strengthen the Alliance by restoring the necessary balance, but that they should not lead to an increase in arms exports.

The EPP and ECDU feel that the recent progress in European political cooperation (EPC) justifies the establishment of a joint foreign policy decision-making centre to provide continuity for European diplomacy between the meetings of the European Council and the Council of Foreign Ministers.

This joint centre, which is accountable to the European Council, should also concern itself with the study of problems connected with security. If necessary, the European Council may invite other European countries which are not members of the Community to take part in mutual consultations on security and defence.

9. The capacity and quality of the defence of the Atlantic Alliance must fulfil four fundamental requirements :

- it must always be sufficient to deter aggression or unreasonable political pressures and, if necessary, to keep conflict to as low a level as possible ;
- it must be characterized by restraint to the extent that an arms race is avoided ;
- it must have as its aim arms control and disarmament, particularly as regards nuclear weapons, to take place within the framework of a general disarmament policy ;
- it must be directed towards maintaining the strategic unity of Atlantic Alliance territory, with the twofold aim of developing its „European pillar“ and extending the security relationship between Western Europe and the United States, both of which aspects are necessary to maintain security in the two areas.

If Europe is to regain its influence in the world and make a decisive contribution to balance and peace, in particular by becoming one of the most important partners of the Third World, it must be able to provide a deterrent to Soviet expansionism. Only by strengthening its links with the United States, while implementing and coordinating an adequate armament effort, can it retain its credibility and regain its self-confidence, without which it runs the risk of succumbing to defeatism or the illusion of an ephemeral neutrality.

The Christian Democrats are convinced that it is the psychological and cultural forces of our world rather than the material ones which will play a decisive role, and they therefore reiterate their determination to establish a free and just society based on Christian principles ; the repercussions of such a society will prove a pattern for those peoples subjected to totalitarian regimes on which they can model themselves and which can encourage efforts to make transformations within these regimes.

EUROPEAN MONETARY UNIFICATION

The Political Bureau of the European People's Party (EPP), meeting in Brussels on 28 April 1981 under the chairmanship of Leo Tindemans, unanimously adopted the following resolution :

RESOLUTION on measures to be taken in the monetary field with a view to EUROPEAN MONETARY UNIFICATION

PREAMBLE

The Community, as indeed each of the Member States, is faced with one of the most serious crises Europe has ever experienced. The technological revolution, the energy crisis, competition from numerous newly-industrialized non-member countries, the increased poverty and indebtedness of the „Fourth World“, radical uncontrolled disorder in international monetary relations ; all these factors are combining to create intractable disequilibria with regard to inflation, industrial structures and employment.

The European Community must face up to these difficulties by coordinating its efforts and defining an overall strategy based on harmonious national policies and suitable Community machinery.

The position of the Community as the world's leading commercial power confers upon it certain responsibilities with a view to the restoration of financial equilibria in the world, the gradual introduction of a new international monetary system and the financing of economic development in Europe and the Third World.

The strengthening of the European Monetary System should therefore go beyond the institution of a Community integrating mechanism to meet the need for closer convergence of the economies of the member countries. It should be the focal point of a global strategy designed to provide a gradual restoration of balance in the operation of world economy and to give a new impetus to economic growth in Europe.

The Political Bureau of the European People's Party (EPP) :

- having regard to the tradition of consultation between the central banks of the European Economic Community (EEC), which dates back to the Council Decisions of 8 May 1964 (64/300/EEC) setting up a Committee of the Governors of the Central Banks of the Member States and imposing an obligation to hold consultations within the Monetary Committee (64/301/EEC) ;
- having regard to the resolution of the Council and the representatives of the governments of the Member States of 22 March 1971 concerning the gradual implementation of Economic and Monetary Union in the Community ;
- whereas such a development will not be possible unless the Member States of the Community reaffirm their desire to bring about European Political Union, and this results in the near future in the adoption of Community measures to promote economic harmonization and convergence ;
- whereas the resolution of 22 March 1971 has not been put into effect as a result of the disruptions both in the operation of the world economy and in international monetary

relations ; moreover there has not been enough enthusiasm on the part of the European Community. However, the Member States are nevertheless striving unremittingly to achieve the alignment and coordination of the European currencies, chiefly in relation to other currencies, to the extent that certain important points of the Werner Report are being applied, such as the virtually permanent consultations between the central banks through their private telephone conference networks ;

— whereas these efforts, aimed at establishing a zone of stability in Europe, led to the creation of the European Monetary System (EMS), set up by the European Council resolution of 5 December 1978 and effectively implemented by the central banks of the Member States on 13 March 1979 ;

— whereas in paragraph 1.4 of its resolution on the EMS the European Council states that it remains „firmly resolved to consolidate, not later than two years after the start of the scheme, into a final system the provisions and procedures thus created. This system will entail the creation of the European Monetary Fund as announced in the conclusions of the European Council meeting in Bremen on 6 and 7 July 1978, as well as the full utilization of the ECU as a reserve asset and a means of settlement. It will be based on adequate legislation at the Community as well as the national level” ;

— having regard to the adoption by the European Parliament on 17 April 1980 of the resolution presented by the Committee on Economic and Monetary Affairs (Doc 1-63/80) on the European Monetary System (EMS), and to the fears expressed in the conclusions of the explanatory statement (paragraph 86) : „There is therefore a strong likelihood that, when the deadline arrives, the Community will once again find itself unprepared” and that these fears have so far proved to be justified ;

— whereas during this two-year period, despite the oil price explosion, the reversal in the balance of payments situation and the considerable instability of the dollar and the yen, the EMS has facilitated greater stability in international currency exchange rates in Europe, as a result of the coordination of national policies on interest rates and intervention in Community currencies ;

— whereas, because of the difficulties connected with abandoning sovereign rights such as the minting of money, the introduction of a European currency into circulation in the Member States is a process which can only be achieved by stages ;

— whereas during this two-year period in which the EMS has yielded favourable results — apart from the minor adjustments in September and November 1979 — the central rates have been maintained and the 2.25% fluctuation margins between the Community currencies have been minimal in comparison with the substantial disparities between the principal economic indicators in the Member States, that is : differences in the rates of inflation from 3 to 21%, in the budget deficit from 1 to 12% of GDP, in average working hours from 37 to 42 hours a week, in the unemployment rate from 3 to 11% of the working population, in the interest rate (3 month interbank rate) from 3 to 32% and in the balance of payments deficit from 0 to 9% of GDP, these differences being such that a fixed relationship between the Community currencies would probably not have altered significantly the need for shortterm support and credit ; (1)

— whereas it is aware that the favourable results achieved over the two-year period, which has come to an end, call for the Bremen resolution to be implemented in a permanent and practical manner, particularly since the objective of achieving stability in Europe will not be guaranteed until certain irrevocable decisions have been taken ;

— having regard to the need expressed by the European Council at Bremen on 5 December 1978, within the framework of a vast strategy to improve economic development, to try to intensify convergence of the Member States' economic policies ;

1. requests that the Council, in pursuance of the decisions made by the European Council in Bremen, should immediately create the political conditions for the introduc-

tion at European level of a central independent monetary authority (European Monetary Fund), to which the necessary gold and currency reserves would be transferred ;

2. invites the European institutions to take all the necessary measures to create a European currency, and requests them to take the immediate step of strengthening the role of the ECU as a reserve currency and means of settlement, between commercial banks as well as between the central banks ;

3. requests that the European institutions take political initiatives at the same time in order to attain genuine convergence of the economic, and especially budgetary, policies of the member countries, without neglecting the back-up measures needed to reduce the structural imbalances in various sectors of the economy.

Explanatory Statement

Rapporteur : John Poullet

The Economic Affairs Committee of the ECDU and the EPP has spent several meetings debating what should be its position with regard to the introduction of the European Monetary System.

The committee has therefore been at pains to appraise the importance and effect of the EMS in terms of „whether or not it constitutes a decisive step towards the accomplishment of Economic and Monetary Union and, therefore, towards European Union" (1).

The analysis of this appraisal comprises three parts. The first part will deal with the political aspects and the technical aspects ; the second part will assess the EMS from the point of view of its operation after two years ; the third part will explain the recommendations for a strengthening of the EMS leading to monetary unification.

1. ANALYSIS OF THE EMS

1.1. Political aspects

1.1.1. Reasons for the creation of the EMS

No reference was made to the motives either in Bremen or in Brussels on 5 December 1978.

However, economists and technical experts consider that there are two basic reasons behind the creation of the EMS.

The first motive lies in the fact that it is symptomatic of the situation that the Europeans should have been driven to resort to one of the techniques of unification more as a result of their displeasure at the American policy of using the dollar as an instrument of competition in trade than for domestic reasons (2).

The decision was not based on any of the specific and deliberate proposals put forward by various statesmen, as pointed out by Mr Werner, in connection with the plan which bears his name, in his speech on 15 December 1980 to the Centre d'Accueil pour l'Europe Unie : „The reasons for the failure are varied, but they are all rooted in an indisputable weakening of political will". One after another, the reports of Mr Werner, Mr Marjolin, Mr Spierenburg, Mr Jenkins and Mr Tindemans were ignored or received with scepticism. Action would seem to have been inspired only by fear.

It is no less symptomatic that hardly had the USA taken measures to strengthen and stabilize the dollar (measures which were at last effective) than the Europeans encountered great difficulties in putting the EMS into operation, ostensibly because of the problem of Monetary Compensatory Amounts (MCAs).

The second motive lies in the realization that the floating of currencies against one another does not lead to an improvement in the competitiveness of economies and, consequently, in trade balances (3) (4). On the contrary, countries such as Italy, the United Kingdom, the USA and, to a lesser extent, France, which left the snake in 1974, did not see any improvement in their competitive position despite the continuous depreciation in their respective currencies.

It was therefore assumed that Italy and the United Kingdom would agree to return to a stable exchange system similar to that of Bretton Woods or the parity grid resulting from the setting of stable yet adjustable bilateral pivot rates referred to as the „snake”.

Politically, it was inconceivable that these countries could purely and simply rejoin the snake, because to do so would have been tantamount to publicly admitting that the whole policy of the last seven years had been wrong.

Another solution, superficially different from the snake, had to be found, whence the birth of the EMS.

1.1.2. Following its analysis of motivations, the Committee undertakes **a political analysis**.

One cannot fail to notice how differently the EMS is assessed in the speeches of politicians with responsibilities in this field and in the writings of technical experts — mainly represented by the central banks. Although it was the latter who carried out the work requested by the governments, it is in fact government circles that appear more satisfied with the experts' work than are the experts themselves. Car manufacturers know perfectly well that their products will not withstand the strain of being driven by unorthodox drivers.

One has the impression that politicians think they can solve political problems by simply relying on technology. It was thus that in Bremen the general technical outline of the EMS was decided on by the governments on the basis of political data. It would have been better to specify the political framework and to ask the technical experts to submit various technical solutions, say two or three alternatives and to specify the economic and monetary conditions to be fulfilled in order to give each alternative a reasonable chance of success, in which case the governments would have had to choose the politically most feasible solution and then stick to it. As the National Bank of Belgium states in its annual report for the 1978 financial year (5), this remains the chief problem.

Now that the EMS has been decided on, it is necessary to consider what its **political impact** will be.

It was to be feared that the inauguration of the EMS would be delayed because of the question of Monetary Compensatory Amounts. Thus, betraying a narrow-minded nationalism (6). Such a decision could not have been taken before all the technical aspects had been smoothed out.

Although each of the governments involved is right in its own way, it is to be hoped that both sides will make an effort to solve the technical gaps caused by the MCAs, failing which we could be faced with renewed indecision at the end of the two-year transitional period. This was a political victory.

Lastly, although the EMS has finally got off the ground, it is possible to view its later political scope as being a contribution of sufficient impact to open up the way to future progress towards economic and monetary union and, therefore, to political union. Indeed, no country can foretell what socio-economic problems it will be faced with between now and 1985 given the persistently high level of unemployment, especially in view of the fact that public reactions vary greatly between the Latin, Germanic and English-speaking countries. These reactions threaten to force some governments to take protectionist measures incompatible with the EMS and the Treaty of Rome if the political will does not clearly demonstrate its desire to consolidate the progress achieved.

When social tension unsettles the economy of a country, that country will tend to withdraw from a common system as long as it is technically possible, which is true of the EMS.

It is therefore logical that the following question should be asked : if there is a genuine political will to achieve economic and monetary union, why not decide immediately on the creation of a European currency, since such a step is technically and economically possible ?

It has been observed that the main parameters of the economies — VAT, working hours, taxation, hourly wage rates, inflation rates, interest rates, etc... — show wider gaps than the 2.25% bilateral fluctuation brackets around the pivot rates.

Consequently, the straightforward scrapping of these fluctuation brackets is marginally the least important of all the parameters distinguishing the economies.

1.2. From the technical point of view, the EMS has both strong and weak points.

1.2.1. The main qualities of the EMS can be summed up as follows : as improvement on Bretton Woods and on the snake, an improvement of the mutual support instruments and, above all, the fact that it appears politically feasible.

More specifically, in contrast to Bretton Woods, the European currencies are expressed in terms of a reference unit based on the European currencies themselves, rather than in terms of gold or the dollar. The technical conditions remain unchanged — 2.25% fluctuation margin (except temporarily in the case of the lira, where it is 6%) instead of 1% — and, where the settlement of balances is concerned, the use of the ECU for 50% of balances instead of dollars or gold for 100% of balances. This will have a considerable restraining effect on the practice of printing dollars as an unconditional method of financing the American balance of payments deficit, a practice which, although not an intended part of the Bretton Woods system, had arisen as a result of the management of the American economy since 1944, with all its detrimental effects on other economies, and of the monopolistic position of the US dollar on the exchange market.

Compared to the snake, the EMS offers the advantage of a better balancing of tensions between economies showing divergent trends. In fact, the aforesaid Common Market countries had the choice of rejoining the DM zone, which allows for more growth in a period of recession, but at the same time applying a deflationary policy, or of veering away from the DM zone, leaving the snake and continuing to apply an inflationary policy.

Where the means of support are concerned, there is an unquestionable improvement to be noted as regards both volume and terms. Very short-term support, which is unlimited in volume, is now available for 45 days rather than 30. The aim of this measure is to provide a better technical means of coping with those erratic movements on the exchange markets which are fundamentally unjustified from the economic and monetary points of view.

The time limit for short-term support has been raised from 6 to 9 months, which is still too short because it should at least have been raised to the budgetary year. Evidently, the mutual distrust between the proponents of an orthodox policy and the others is such that the former are not prepared to make an effort — excessive credit is another word for inflation — unless they perceive the same willingness amongst their partners.

1.2.2. The weaknesses of the EMS stem mainly from the divergencies in economic policies, any lack of credibility of the ECU as a reserve currency and the fragmentary nature of the exchange market.

The EMS is no more than a technique designed to create a standard currency to be used by European countries, but it is threatened with the same fate as other projects such as the once envisaged EDC (European Defence Community), the standardization of VAT rates, Monetary Compensatory Amounts (MCAs), etc..., in short, all the techniques on which Europe fails to agree or scuttles when there is no agreement on a standard policy.

Thus the pattern of the inflation rate has a direct effect on the purchasing power of the standard currency. There can be no question of maintaining a European currency unit if the inflation trends diverge too greatly. Clearly, the EMS basket permits of devaluations or revaluations, but as soon as balances of payments begin to be settled in ECU, a decision by a given country to devalue its currency would be unwelcome because the other countries would be obliged to revalue their currencies and would thus receive less national currency than they had originally lent. After all, the aim of a standard currency is always to receive the same purchasing power in return for what has been lent, which would not be the case.

Failure to harmonize VAT rates will mean that the 2.25% bracket for fluctuations between bilateral rates, being far less than the differences between VAT rates, will not last long unless stringent frontier checks are carried out, which is contrary to the principle of the free movement of goods. Major distortions on certain markets between the Netherlands and Belgium, which are no longer separated by a frontier, will not last long.

Failure to harmonize taxation rates will mean that the 2.25% bracket for fluctuations between bilateral rates will not last long because the pressure in the frontier regions will be too strong.

Lastly, the problem of common agricultural prices provides tangible proof of the precariousness of a technique when economic and monetary orthodoxy is not observed. From a technical point of view, it was a **serious mistake to link the solution for agricultural prices to exchange rates** because this meant measuring the whole of one economy in terms of another. If the agricultural sector, which chose the exchange rate as a pivot reference for the calculation of compensatory amounts, exhibits a different trend from the economy as a whole, there can be no alternative to the use of green rates. The second mistake was a violation of the principle of free (non-subsidized) movement of goods. In actual fact, whilst guaranteeing farmers' incomes, the prices in green rates should always be lower than the scale of correction (e.g. subsidy in Germany — tax in Italy) in order to guide farmers gradually towards the same level of productivity and the same standard of living with an equal quality of product whilst reducing monetary compensatory amounts from the outset. Instead of that, the disparities have been maintained.

One of the major weaknesses of the EMS lies in the uncertainty which exists as to the future credibility of the ECU. To the extent that the ECU becomes credible, it could at least become more of a European reserve currency than the dollar and possibly even be used in dealings with major trading partners. This matter must, however, be seen from a realistic point of view.

History has shown that in this field the credibility which those who manage the national reserves attach to certain currencies or assets is based on a form of hierarchy whereby priority is given to what the whole world regards as being de facto the safest vehicle. Bankers are not interested in artificial arrangements.

- The first such vehicle was gold in the form of the Gold Exchange Standard.
- Then it was the currency of the most powerful trading power, the British Empire.
- Subsequently, the currency of the new most powerful trading nation, the USA, backed by its convertibility into gold.
- After the demise of Bretton Woods on 15 August 1971, and despite the non-convertibility of the dollar into gold and its depreciation, it remained gold and the currency of the most powerful trading nations. In fact, the loans made by Germany and Switzerland to Italy are gauged on the latter's gold. The central banks retain and revalue their gold. Despite accounting losses, reserves in dollars increase with all the central banks.

— The SDR, which closely resembles the ECU, is not accepted as a major reserve currency basically because it does not present a sole credible signature — a banker's argument.

— Lastly, the gradual rise of Japan and Germany as economic powers comparable with the USA has meant that their currencies have also become reserve currencies, albeit under duress.

— Consequently, where the ECU is concerned, it is in no way certain that it will be readily accepted as a reserve currency, even by the Europeans. Moreover, the best proof of this is the fact that the traditional Belgian talent for compromise had to be called on in order to gain acceptance for an arrangement whereby at least 50% of balances would be settled in ECU.

Another uncertainty lies in the future role of the ECU as a reserve currency. Since the Europeans do not want the ECU to compete with the dollar, the ECU would remain a reserve currency between the European countries until such time as it became the sole European currency. On the other hand, Robert Triffin, a leading economist of Belgian origin lecturing in the United States and an adviser to the US government, fears that the ECU could well compete with the dollar and provoke a serious depreciation in the dollar on the world exchange markets. He therefore supports the European idea of not allowing the ECU to be used as a reserve currency in other countries.

The final great weakness lies in the fact that the exchange market might remain as fragmented as it is already, or even deteriorate further. We have already seen the Irish pound become untied from sterling. Are we shortly to see the Luxembourg franc become untied from the Belgian franc? Such fragmentation encourages exploitation of the system's weaknesses, to which speculation, data-processing techniques and information systems are major contributors.

Contrary to the image projected by the media, speculators are not, generally speaking, large enterprises or individuals intent upon making easy profit from the technical defects of the exchange market. Clearly, there are exceptions in both banks and companies, just as there are corrupt officials and politicians, unfaithful husbands, shady accountants, etc...

It is fair comment to say that if economic policies were orthodox, the exchange market would not be disturbed. Unfortunately, because of the lack of economic stability, foreign currencies have developed into commodities, almost like raw materials, subject to all the vicissitudes of supply and demand.

Under these circumstances, it is quite logical that, when faced with such uncertainties, commercial enterprises should take precautionary measures in order to safeguard their interests. Faced with the disorderly economic trends of different countries, those in charge of finance are constrained to speed up or delay payments, purchase foreign currency at spot or forward rates, place liquid assets in one or another more stable currency, etc... Obviously, they judge the firmness of a given currency by the type of economic policy applied.

It therefore stands to reason that insofar as it will be the product of a greater degree of economic cohesion, the introduction of the ECU will mean that companies will have less need to take precautions against instability. It should be pointed out that the ECU is not indispensable to stability. In a situation of stability, Bretton Woods or the snake would be equally effective.

Data-processing has unfortunately added greatly to speculate mechanisms. Two particular techniques — the mathematical models of arbitrage and the SWIFT network — have much to answer for in this respect. A brief technical explanation of these mechanisms is provided in the annex.

2. APPRAISAL AFTER TWO YEARS' EXPERIENCE

2.1. Overall appraisal

During the two years' experience of the EMS, the world economic system has faced an upheaval due to the leap in oil prices, the resurgence of inflation and the spectacular deterioration in balances of payment, to the point where the International Monetary Fund (IMS) is confronted with a fundamental problem of financing the imbalances of virtually all its members.

The EMS has not only survived the upheaval, it has retained all its members and nothing has been changed in its essential characteristics. The integrity of the EMS after two years' operation now gives it a credibility which the „snake" of 1972 never succeeded in achieving.

In his Paper to the Conference on „European Banking" organized by the Financial Times on 10 December 1980, Mr Ortoli expressed himself in these terms :

„As a whole the system has operated perfectly satisfactorily.

A. The participating currencies have been stable : from September 1979 to September 1980 their variations with respect to the ECU have been limited, if one disregards the £, whereas the fluctuations of the \$ and the Yen with respect to the ECU in the same period were 2.5 and 5 times greater respectively than those of the EMS currencies.

B. The mechanisms have been satisfactory :

— the movement of the divergence indicator led the monetary authorities, in addition to the interventions and before the pivot rates were changed, to resort to the range of measures provided for in the Brussels resolution ;

— the two minor realignments of 24 September and 30 November 1979 took place satisfactorily ;

— the interventions in Community currencies increased, even though they are still below those carried out in dollars (about 25% of the total in the most recent period).

C. It must also be noted that the system benefitted from favourable factors which limited its internal tensions. From the beginning it involved an element of flexibility linked with the level at which the currencies had been introduced into the exchange mechanism, with the existence of the normal margin of 2.25% and with that of the margin of 6% applicable to the lira. The DM on the other hand, because of the turn-round in the German current account balance of payments and the level of interest rates, has not pulled the system upwards.

Finally, the desire of the authorities to make a success of the system and thus to maintain the rates has probably brought about a change in behaviour on the exchange markets. In this sense the stability which has been found over two years is almost as much the result of the psychological effect produced by the existence of the system as of the technicalities of its operation.

D. This stability is all the more remarkable because, since the beginning of 1979, events have occurred which might have been expected to exert a greater pressure than actually was the case :

— the successive increases in the price of oil since June 1979 have produced a considerable imbalance in the Community's balances of payments (more than 40,000 m\$) ;

— the average rate of inflation in the Community has increased more rapidly, but the difference between the different national rates has tended to widen ;

— the other major currencies, the Yen and the Dollar, have fluctuated widely ;

— finally, the volume of international liquidities has increased substantially, which has further aggravated the vulnerability of the exchange policies".

2.2. The EMS and the major economic parameters

When one analyzes the changes in the major economic parameters of the Member countries and the United States since 1 January 1979 up to the present day, it is striking to note the considerable differences between countries and, on the other hand, the stability of the European currencies with respect to each other.

A number of figures which speak for themselves are given on the next page.

As one can see, the considerable differences in the development of the economies of the Member Countries have not prevented currency stability, thanks to all the EMS machinery which has been set up.

2.3. Lessons to be drawn

Although it is very difficult to draw conclusions shared by the spectators and the actors — whether they are political or monetary authorities — it is worth making the attempt.

2.3.1. Positive aspects

The divergence index is useful and even plays an unexpected rôle. This device was not really necessary for the central banks since it can hardly be claimed that it reveals to the monetary authorities a situation which they would not otherwise perceive, since the exchange market and the balance of payments of their countries form part of their daily business.

On the other hand, for the political authorities and the public at large it forms a sort of signal showing the position of the country as compared with the other members at any one time. Because of its psychological effect, the central banks tend to intervene before their currency reaches the threshold of ± 75 , above which the country is obliged to take measures to rectify the situation.

			B	D	DK	F	I	IRL	NL	VK	USA
Inflation (change on corresponding month of previous year)	1979	Min.	3,7	2,8	6,7	10,1	13,0	10,8	3,8	9,3	9,4
		Max.	5,2	5,4	12,8	11,8	19,8	16,0	4,8	17,4	13,3
	1980	Min.	6,0	5,0	10,5	13,0	20,4	15,6	5,5	15,3	12,7
		Max.	7,6	6,0	14,3	13,8	21,7	20,3	7,1	21,9	14,6
	1981	Min.	7,0	5,5	10,6	12,5	19,8	20,9	6,5	12,5	10,3
	1 st Quarter	Max.	7,6	5,7	11,3	12,8	20,6	20,9	6,9	13,0	11,5
Budget deficit as % of GDP	1979		9,4	3,0	0,9	0,8	9,4	n.b.	5,6	3,3	n.b.
	1980		11,8	3,3	1,3	0,7	10,7	n.b.	5,9	3,0	n.b.
Current balance of payments deficit as % of GDP	1979		- 2,8 (1)	- 0,7	- 4,6	+ 0,2	+ 1,6	- 8,7	- 1,6	- 1,0	...
	1980		- 4,8 (1)	- 2,1	- 4,4	- 1,2	- 1,3	- 5,1	- 1,8	+ 0,9	+ 0,2
Interest rates interbank 3-month rates (2)	1979	Min.	7,69	3,18	9,37	7,50	11,00	n.b.	6,31	11,12	10,25
		Max.	14,75	9,12	22,75	14,62	19,75	n.b.	15,50	17,00	15,81
	1980	Min.	12,06	8,06	13,50	10,31	15,25	n.b.	9,12	13,75	8,75
		Max.	17,81	10,37	21,68	14,37	32,62	n.b.	12,87	19,62	22,00
	1981	Min.	12,13	8,87	11,25	10,50	16,50	n.b.	9,06	11,62	13,81
	1 st Quarter	Max.	17,00	14,50	15,06	14,37	20,25	n.b.	11,50	14,50	19,06
Average working hours in industry Source : Eurostat	1979	(April)	37,1	41,9	n.b.	41,1	n.b.	42,3	41,0	n.b.	40,2
	1980	(April)	n.b.	n.b.	n.b.	40,8	n.b.	41,2	n.b.	n.b.	39,8
Unemployment rate as % of working population Source : Eurostat	1979	Min.	7,8	2,9	4,4	5,7	7,0	7,3	3,7	5,0	5,2
		Max.	9,5	4,6	7,0	6,6	8,0	9,0	4,8	5,6	6,4
	1980	Min.	8,3	3,0	5,1	5,9	7,6	8,1	4,0	5,6	6,6
		Max.	10,5	4,0	8,5	7,3	8,3	10,2	6,3	8,6	8,2
	1981	Min.	10,5	4,7	9,3	7,4	8,8	10,4	6,7	9,3	8,0
	1 st Quarter	Max. (3)	10,6	5,1	9,4	7,5	8,9	10,5	6,8	9,5	8,2
Divergence index in relation to ECU	1979	Min.	+20	-48	-78	-43	-38	-45	-30	...	...
	(4)	Max.	+92	+44	+83	+51	+13	+47	+62	...	...
	1980	Min.	+ 4	-11	-42	-72	- 5	-44	-64	...	...
		Max.	+78	+69	+51	- 6	+60	+48	+22	...	...
	1981	Min.	+42	-39	-35	-74	+ 3	- 7	-56	...	...
	1 st Quarter	Max.	+96	+67	+41	-12	+76*	+72	- 4	...	...

(1) B.L.E.U.

(2) Eurocurrency 3-month rates, bar Belgium. Source : B.R.I.

(3) Bar USA : 2 preceding months.

(4) Since 13 March 1979.

* 23.3.1981 Devaluation of 6 pct. against the currencies of the EMS.

n.b. = not available.

The credit facilities have not been used to any great extent by comparison with the means provided for by the EMS. This is partly due to the fact that all the member countries have a balance of payments deficit with respect to the world economy. It is therefore difficult to resort to internal financing of deficit balances.

The political will to make the EMS work is perhaps the most striking positive aspect, in spite of the complex situation of the relationship between the DM and the dollar. In the „snake“ the DM had a tendency to increase the upward pressures when the dollar was strong. Despite the fact that the United States persists in using monetary techniques — interest rate and money supply — to control its inflation, the DM has not followed the movements of the dollar. On the contrary, because of the substantial German balance of payments deficit, the DM has been amongst the weak currencies.

2.3.2. Negative aspects

The considerable differences in the major economic parameters constitute the greatest danger. If the differences in economic development are too great, the tensions within the EMS will increase and, as long as a country can do so, it will leave the EMS or revalue or devalue substantially within the EMS.

To illustrate the dangers, here are a few examples of countries meriting particular attention.

Belgium is paralyzed by an astonishing degree of indecision regarding the rectification of its budget deficit. As the Luxembourg Prime Minister, Mr Werner, remarked in general terms in his statement of 15 December 1980, economic and monetary convergence assumes amongst other things that the most orthodox views on monetary doctrine will be respected. In this respect the injection of money to finance the budget deficit should be an exceptional, instantaneous and controlled measure (7). From this point of view, Belgium may interfere with the harmonious development of the EMS.

The United Kingdom, for its part, is not succeeding in controlling inflation. While its external situation is good and for the time being prevents the deterioration in its currency, it is because of its favourable energy balance, reinforced by a high oil price, but mainly because of a considerable reduction in the purchasing power of the British worker. Since it does not belong to the EMS, it does not present a direct danger to the system, but its persistent non-integration, mainly for economic reasons, does not strengthen the EMS and indirectly jeopardizes its future.

Finally, because of its grave economic weakness, Denmark was one of the reasons for tension within the EMS in September and November 1979.

These few instances show that if there is no convergence of economic policies, monetary convergence becomes more difficult.

3. RECOMMENDATIONS

3.1. At technical level

Compared with the technical analysis, the impression is that this examination goes either too far or not far enough.

The conditions of strict economic management needed to guarantee success do not appear to be present. Several important aspects diverge, e.g. VAT rates, taxation policies, inflation rates, wage costs, working hours, etc... Would it not have been better first of all to reduce the gap between the various important economic policy parameters and thus stabilize the exchange rates between the European currencies ? It would then have simply been a matter of plucking the ripened fruit instead of trying to ripen it artificially as is the case now.

The other alternative, which might seem more daring but is in actual fact more realistic, would have been to decide straight away on the creation of a European currency without any period of transition. In this way, the various countries would have been welded together without any possible means of escape (8) and forced into a process of mutual adjustment.

In some sectors, temporary support measures would probably have to be taken, the extent of which would gradually diminish. In this connection, it should be noted that the solution which has been implemented in the iron and steel sector does not rely on a monetary technique but on industrial management and, in the long run, will have the same effect as the scrapping of outdated technology. This solution leaves plenty of room for the rapprochement of the European currencies without jeopardizing the reorganization of the steel sector. Thus, the straightforward creation of a European currency without transition (accelerated Werner Plan) is a viable proposition from both the technical and economic points of view.

3.2. At the political level

All the studies carried out by the experts and the central banks over more than 10 years — the Werner plan is the most striking example — show that monetary and economic integration is technically possible provided the political will is there. The officials of the central banks often have the feeling that studies and memoranda have been requested by the political authorities so that they would not have to make a decision.

In Luxemburg on 1 and 2 December 1980, the European Council did not ratify the formal undertaking of the Council of Bremen on 6 and 7 July 1978 or that of Brussels on 5 December 1978, which maintained „their firm determination to consolidate, **no later than two years after the establishment of the system**, the provisions and procedures thus established in order to make it a definitive system. As provided for in the conclusions of the meeting of the European Council in Bremen on 6 and 7 July 1978, this system will involve the creation of the European Monetary Fund and will mean the full and total use of the ECU as a reserve asset and instrument of control”.

Has not the moment come for the directly-elected representatives of the European People to demonstrate clearly the will to persevere towards European integration, as expressed on two occasions by the Council, and thus stimulate the implementation of the resolution of 10 January 1979 by the EPP on the EMS, the final sentence of which states that : „the EMS is a decisive stage in the achievement of economic and monetary union on the way to European union”.

In order for this stage to be decisive there **MUST** be a minimum degree of irreversibility as provided for on the creation of the EMS.

Although this has not yet been tackled, but is an underlying factor in monetary unification, as Mr Werner also pointed out in his 1971 report, the creation of a single European fiduciary currency, with notes and coins, will be for the public at large the visible evidence of integration.

Having regard to the very long process involved in the design, production and distribution of a European currency (minimum 5 years), the process of creation of such a currency ought to be initiated. To give concrete form to these ideas and as a conclusion to this report, it is suggested in particular, without excluding other possibilities for action, that the Group of the European People's Party (Christian Democratic Group) should table in the European Parliament a resolution on action to be taken in the monetary sector with a view to European monetary unification.

FOOTNOTES

1. ECDU and EPP resolution on EMS of 10 January 1979.

2. The International Role and Fate of the Dollar, by Robert Triffin — in *Foreign Affairs*, Winter 1978/79, page 276.

„It explains also the desperate attempt of the Europeans to set up a new European Monetary System less overwhelmingly dependent on an inconvertible, fluctuating, and shrinking dollar for their own international settlements and accumulation of official reserves and private working balances”.

3. National Bank of Belgium report for 1978 — part of the introduction on floating rates (page XXII).

„The fact remains that the international order of Bretton Woods has given way to a state of chaos in which each country can decide, far too freely, to progress from floating to the precarious stabilization of the exchange rates for its currency or vice versa”.

4. The International Role and Fate of the Dollar, by Robert Triffin — *Foreign Affairs*, Winter 1978/79, page 274.

„The floating exchange-rate system that succeeded the Bretton Woods agreement has become more and more unacceptable to many countries”.

5. National Bank of Belgium report for 1978 — Introduction pages XXIV and XXV.

„If, once it is achieved, this ambitious project is to last, the operation of this vast area of fixed exchange rates will have to be buttressed by economic policies characterized by willingness to subordinate national measures to the Community interest. Admittedly, economic trends will never progress fully in step within the Community and it is perhaps better that way. There is no doubt therefore that temporary imbalances will disturb the national exchange markets ; when they are the result of economic or accidental variables, it is appropriate that they should be financed rather than fought. However, it is just as obvious that if the economic policies of the countries of the Community were to differ fundamentally from each other for too long, both in inspiration and in terms of their objectives, and if the exchange policies with respect to floating currencies were to contradict each other, the internal or external values of the partners' currencies could never progress in any but an incohesive manner ; the monetary stability area would be stable in name only.

„This necessary cohesion of policies will only be properly achieved when these policies are determined in the different countries by politicians who have to answer for their decisions first and foremost to the national authorities and, in particular, the national electorates. In the last analysis, the technical arrangements which can be made to promote the monetary unification of Europe are merely means of aspiring to broader, more fundamental and longer-term targets. Such targets can be set and reached only with the clearly-expressed and constantly renewed consensus of the highest political authorities of the autonomous states. This means that the deliberate introduction by the European Council of a coordinated monetary system as a recognizedly necessary catalyst for European integration logically postulates a desire on the part of these authorities for rapprochement, the pre-requisite for any form of political union between the countries of the Community”.

6. Société Générale de Banque Monthly Review — February 1979 - No. 185 - page 1.

„The reason put forward for postponing the entry into force of the EMS is a regrettable pretext from both the political and the psychological point of view. It is to be hoped that this incident will not cause a major crisis within the EEC, but it can only increase the scepticism of those circles which have doubts as to the sincerity of the political will to achieve European union and which deplore the fact that nationalism is as strong as ever, despite the Common Market having been created more than 20 years ago. Some countries have taken definite risks on the internal political level to join the EMS and have received no recognition for this whatsoever”.

7. The future of our currencies — Speech given by Mr Pierre Werner, Head of Government, to the Centre d'Accueil pour l'Europe Unie” 15 December 1980, pages 7 and 8.

„On the other hand financing budgets by monetary operations is regarded in most countries as impossible, abnormal or only justified in temporary, exceptional crises. Granted, the Keynesians have modified this view slightly. Increasing the money supply, for example via the budget, is a form of stimulus and guidance which is widely used according to the circumstances prevailing.

Any new approach to monetary union also presupposes some success in reaching a sufficient degree of harmonization of the economic criteria and justification for increasing the money supply while the methods adopted to achieve the desired results could vary. A basic feature of any agreement on this point would be to rule out or severely restrict the financing of budgets and public programmes by means of monetary operations. Of course, it is not enough to keep the money supply under control solely in relation to the financing of public expenditure. This must be accompanied by controls on the volume of monetary flows as the result of banking activities.

Liquidity policy represents an integrated whole which should correspond to the overall needs of the economy. I remain convinced, however, that it is first and foremost the task of the public sector to prevent inflationary financing. Thus the neutrality of public sector operations on the money supply would be one of the principles on which the Member States would have to agree although this principle might be subject to certain clearly-defined exceptions according to the state of the economy".

8. Tijdschrift voor economie en management — Katholieke Universiteit Leuven — XXIst year — No. 1 - 1976 - page 99.

„As a rule, the transition from national currencies to a single European currency is seen only as a final goal, more recent proposals advocating the introduction of a parallel European currency in the initial stages. A European currency would imply irrevocably fixed exchange rates and a harmonized monetary policy and would consolidate the European identity".

ANNEX

Mathematical arbitrage models optimize the profits to be made on an arbitrage transaction from one currency to another via third currencies by using not only spot and forward transactions but also deposits in the currencies in the chain discovered by the computer. The computer runs through its model several thousand times a day and as soon as it identifies potentially profitable transactions, informs the exchange dealers, who then seek confirmation from the correspondent banks concerned. In the space of a few minutes, i.e. the time to make ten or so telephone calls, the bank sets up a chain throughout the world and then starts all over again.

In this connection, the EMS or the ECU will have the effect of reducing de facto the number of random variables of the mathematical model and thus of reducing the chances of identifying profitable transactions. At present, some twenty currencies take part in this game but as the Scandinavian currencies, the Swiss Franc and the currencies of future member countries of the Common Market gradually join the EMS, this number will fall to between 12 and 8.

SWIFT is an automatic network linking the terminals of the exchange and arbitrage departments or even the computers of the 400 most important commercial banks in Europe, America and Asia for the purpose of speeding up payments.

In this way, each of the 360,000 payments a day totalling many thousands of millions of dollars is executed within a few minutes. The payment is processed, the accounts are adjusted and new decisions are taken. Less than five years ago, this whole process took anything up to two days. The speed at which money rotates has increased considerably, exacerbating any disturbing effects. There is no doubt that if the ECU stabilizes 8 to 12 currencies, the exacerbating effect of the SWIFT network will diminish accordingly.

Lastly, it must be admitted that the mushrooming of information systems in the exchange field is making objective assessment increasingly difficult.

The all-powerful British press agency, Reuter, offers an exceptional service in this field, to which almost all the commercial and central banks are subscribers. Starting from several centres — London, Frankfurt and New York — Reuter has set up a network of terminals delivering every political, economic, monetary and military message straight to the exchange dealers like starting signals in a race.

In addition, Reuter calculates the parities between currencies on the various markets and tomorrow, if the EMS becomes operational, will calculate the position of the different currencies against the ECU and will probably issue a graph showing the situation of each currency together with its position in relation to its intervention rate and its fluctuation indicator.

The central banks will almost have to be able to anticipate the reactions of the market so as to prevent the latter from demolishing the whole structure.

EUROPEAN REGIONAL POLICY

The Political Bureau of the European People's Party (EPP), meeting in Brussels on 1st July 1981 under the chairmanship of Leo Tindemans, unanimously adopted the following statement.

**Statement by the
European People's Party (EPP)
on a
Mediterranean plan
for the
European Community**

**Rapporteurs :
Gianfranco Martini
Hans August Lückner**

At several points in the EPP's Political Programme (March 1978) it is stated that European unification must be an effective instrument if it is to meet the challenge of under-development both internally and in other countries.

The Christian Democrats must devote their entire energies to this task, in order to help build a more just society. The problems dividing social groups, regions and countries in Europe can only be solved by a policy of European solidarity and structural change.

In its policy, the Community must combat unfair regional and social disparities, rather than simply react to their consequences.

Economic development is not an end in itself. It is there to serve Man.

1. In saying this the EPP's programme follows from the conclusions of the ECDU Conference on European Regional Policy held in Munich on 28/30 June 1973. In its final statement the Conference (comprising Members of Parliament, regional and local representatives and experts) called for the creation without delay of a true and effective Community regional policy based on a common budgetary and financial policy, as part of a political and institutional strengthening of the Community. On 18 March 1975 the Regional Development Fund of the European Community was set up.

2. Such a policy will of course always call for progress on European integration. But the present socio-economic situation, in which the less-developed regions of the Community are more severely affected and which have further aggravated the problems of restructuring and retraining, makes it all the more urgent. All sectors are now permeated by unemployment while certain categories (young people and women) are especially hard hit; the problem is now primarily structural rather than cyclical in nature.

3. The great challenge represented by the accession of Greece, Portugal and Spain, and the inadequacy of the regionally oriented financial instruments of the Community (ERDF, EAGGF Guidance Section, Social Fund, EIB, ECSC aid) call for a more comprehensive and effective structural and regional policy and more money.

4. The European Parliament's resolution of 15 April 1980 on the Fourth Annual Report of the Commission of the European Communities on the European Regional Development Fund (ERDF) states that, despite present policies.

a) the divergence between average per capita incomes in the richer and poorer regions of the Community has continued to increase;

b) the existence of regional disparities constitutes a threat to the sound operation of the common market and the internal cohesion of the Community, and an obstacle to the progress of economic and monetary integration and the enlargement of the Community ;

c) the uncontrolled phenomena of congestion and migration are more costly than measures to encourage the balanced development of the regions ;

d) the definition of an overall analytical and conceptual framework constitutes the only means of moving gradually to introducing a genuine Community regional policy ;

e) Community aid ought to be paid direct to the public or private investor as a supplement to national aid, as the Member States are using aid granted from the Fund as partial repayment of national aid.

These comments give a good picture of present regional and structural policies and demonstrate that, despite the best of intentions, they have not made any breakthrough, although about 21,000 m EUA have been spent through these five financial instruments of Community regional and structural policy.

5. We Christian Democrats therefore regard the following points as vital :

a) the policy of reducing regional imbalances must be an overall and coherent policy based on Community criteria covering all related policies, a concept whose structural effect cannot be attained through piecemeal (often concurrent) measures ;

b) its fundamental object must be to provide work and adequate living conditions for the population in the regions where they live ;

c) the Community's resources to carry out this policy must be increased and made more effective.

6. A comprehensive and radical policy of this kind will only be successful if it produces direct action and if its aims, instruments and procedures are defined and implemented on a long-term (15-20 years) basis. A revolving fund should be set up as its key instrument, along the lines of the Marshall Plan.

The fund would :

a) be replenished from the circulation of its funds — revenue from interest, repayments ;

b) work on the principle of shared finance, i.e. own resources and outside capital should be used in suitable proportions ;

c) its interest rates shall be fixed according to the purpose of the loans, lower than market rates and not index-linked ;

d) the duration of loans should be tailored to their purpose. Redemption-free years should normally be allowed as appropriate ;

e) the fund should be aimed primarily at the Mediterranean regions of Italy and France, and at Greece, Portugal and Spain, in order to alleviate excessive economic imbalances ;

f) in view of the extent and urgency of the problems facing us, the endowment of the fund must be at least 1% of the Community's GDP (about 15,000 m ECU). Over the next 6 to 8 years the fund should be built up to this figure via the Community budget, which must be increased accordingly ;

g) the fund should be used on the basis of Commission directives and administered by the European Investment Bank as an independent unit ;

h) the fund should be subject to control by the European Parliament ;

i) the activities of the fund under the Mediterranean Plan should dovetail with the Community's traditional regional policy for those regions of the Community not covered by the Mediterranean Plan.

7. However, this policy cannot be brought to fruition if the Community is not at the same time politically and institutionally strengthened. Without a European central decision-

making body for Europe answerable to the European Parliament, and without a return to majority voting in the Council as laid down in the Treaty, no policy can be successful in this important area, and without that there can be no economic and monetary union.

8. There can be no bypassing the regional and local authorities when development policy (infrastructure, social and cultural facilities, community services, coordination of measures, regional planning, etc...), is being drawn up and executed. It is therefore essential that they be suitably involved in the planning and implementation of this policy, and be allowed to make useful contact with the fund administration.

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